IF YOU'RE SELF-EMPLOYED... REPORTING YOUR INCOME FOR SOCIAL SECURITY

JANUARY 1986 EDITION

If you're self-employed...reporting your income for Social Security

Nearly all self-employment is covered by Social Security. You're self-employed if you engage in a trade, business, or profession, either by yourself or as a partner. You report your earnings for Social Security at the time you file your Federal income tax return.

This leaflet tells about self-employment and how you report your income for Social Security. Farmers can get information about reporting their farm income in the leaflet, *Farmers...how to report your income for Social Security,* available free at any Social Security office.

Earnings from self-employment

You get Social Security credit for your earnings if your net earnings from self-employment amount to $400 or more in a year. You may get credit even if your net income is less than $400 by using an optional method of reporting earnings. This is explained later on.

When your net earnings are $400 or more in a year, you get Social Security credit for all your earnings

up to the maximum that counts for Social Security, $42,000 for 1986 ($39,600 for 1985).

The amount of your future Social Security benefits depends on the amount of earnings you have. Therefore, it's important for you to report all your earnings up to the maximum. It's required by law as well.

If you have wages as well as self-employment earnings, the wages count first for Social Security. If your wages are less than the Social Security maximum, you pay the self-employment tax only on the difference between your wages and the maximum, or on your net earnings if less.

The self-employment tax rate is 14.3 percent for 1986. You will have a credit of 2.0 percent. (The 1985 tax rate was 14.10 percent and the credit was 2.3 percent.) The credit will be 2.0 percent for 1986-89. After 1989, these credits will be replaced with deductions designed to treat the self-employed in much the same manner as employees and employers are treated for Social Security and income tax purposes.

Figuring your net earnings

Your net earnings for Social Security are your gross earnings from your trade or business minus all of your allowable business deductions and depreciation. If you have more than one business, combine the profit or loss from all of them when you figure your net earnings.

The following kinds of income don't count for Social Security, so don't include them in figuring your net earnings:

- Dividends from shares of stock and interest on bonds or other instruments issued by corporations, unless you receive them as a dealer in stocks and securities.
- Interest from loans, unless your business is lending money.
- Rentals from real estate, unless you are a real estate dealer or you regularly furnish services mostly for the convenience of the occupant. Real estate dealers should count income only from properties held as stock in trade.
- Income received by a limited partner if you don't perform services for the partnership.

For information on farm rental income, ask for the leaflet, *Farm rental income...does it count for Social Security?*, at any Social Security office.

Optional method

If your actual net is less than $400, you can still get Social Security credit under the optional method if your gross profit is $600 or more. The option can also be used in many cases when your net profit is less than $1,600.

You can use the optional method only if your actual net has been $400 or more in at least 2 of the last 3 years. You can use the optional method no more than five times, and it may be used only if net earnings are less than two-thirds of your gross income. It cannot be used to report earnings less than actual net earnings.

Here's how it works:

- If your gross income is between $600 and $2,400, you may report two-thirds of your gross or your actual net earnings if $400 or more.
- If your gross income is $2,400 or more and actual net earnings are $1,600 or less, you report either $1,600 or your actual net.
- If your gross income is over $2,400 and your actual net earn-

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ings are over $1,600, you must report your actual net earnings.

Partners can also use the option. Generally, the partnership gross income is divided on the same basis as profit or loss and allocated to the partners for purposes of the option.

How to report your earnings

After any year you have net earnings of $400 or more, complete the following forms:

- Form 1040 (U.S. Individual Income Tax Return)
- Schedule C (Profit or Loss from Business or Profession)
- Schedule SE (Computation of Social Security Self-Employment Tax)

These forms can be obtained from the Internal Revenue Service or at most banks and post offices.

Send the tax return and schedules, along with your self-employment tax, to the Internal Revenue Service. File your calendar-year return on or before April 15 of the following year. If April 15 falls on a weekend, the following Monday is the deadline.

Social Security taxes may be due even though you don't owe any income tax. As long as your income

is subject to the Social Security tax, you must file your Federal tax return and pay the Social Security tax. This is true even if you get Social Security benefits.

Be sure to show your Social Security number on all forms. If you don't have a number, you can apply for one at any Social Security office. If you lose your Social Security card, you can apply for a replacement there.

Do not use your employer identification number in place of your Social Security number when reporting your own earnings.

Note—On or before April 15 of any year for which you expect to owe $100 or more in income taxes and self-employment tax, you may have to file a declaration of estimated tax on Form 1040-ES and pay the estimated tax or the first installment.

Family business arrangements

If you and your husband or wife operate a business together as partners or as a joint venture, you each should report your share of the business profits as net earnings on separate schedules, even though you file a joint income tax return. The amount each of you should

report depends on your agreement. Each of you will get Social Security credit if each has net earnings of $400 or more.

If you did not operate the business together, net earnings go only to the one who did manage and control the business. The net earnings should be reported for that person alone, even if you file a joint income tax return.

A parent and child may be partners or joint venturers. In either case, both are self-employed and each should report his or her share of the business profits as net earnings.

Special provisions for members of the clergy

There are special provisions for members of the clergy whose earnings from the ministry are automatically covered by Social Security. Unless they have been exempted from Social Security coverage by the Internal Revenue Service, members of the clergy must report their earnings from the ministry as self-employed income. For further information about Social Security for members of the clergy, ask at any Social Security office.

However, if you work for a church or qualified church- controlled organization that elects exemption from Social Security taxes, you are considered self-employed for Social Security purposes. If the church or organization pays you $100 or more a year, you must report your earnings and pay the Social Security self-employment tax each year when you file your income tax return.

Employees of foreign government

A special rule applies to U.S. citizens working in this country for a foreign government, an international organization, or an instrumentality wholly owned by a foreign government.

If you are such an employee, report your earnings from these employers as though you were self-employed. You must include a separate Schedule SE with your Federal income tax return and pay Social Security self-employment taxes on your earnings.

Social Security credit

Social Security credit is measured in "quarters of coverage." In 1986, you earn one quarter of coverage for each $440 of covered earnings. You earn four quarters if your 1986 covered annual earnings are $1,760 or more. This amount will increase each year as average earnings increase.

For more information

If you have questions about Social Security and income from self-employment, or about other Social Security matters, get in touch with any Social Security office. You can find the address of the nearest office in the telephone book under "Social Security Administration" or "U.S. Government."

Questions about income taxes and tax returns can be answered at any office of the Internal Revenue Service.

U.S. Department of Health and Human Services
Social Security Administration
SSA Publication No. 05-10022
January 1986
☆ U.S. GOVERNMENT PRINTING OFFICE 1986: 491-380/40001